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## Russian Federation

### Sugar

### Semi-Annual

### 2004

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**Report Highlights:** Good weather and improved management techniques drove sugar beet yields in Russia to a second consecutive record. If these improved techniques continue to be applied, as expected, total production could increase in the next market year. The industry could receive further support from the government, as changes in import tariff rate calculation methods for raw sugar being considered will provide more protection to local beet producers

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Semi-Annual Report  
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[RS]

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## Executive Summary

Sugar beet acreage has been increasing steadily, reflecting improvement in the sugar beet industry as a whole. In 2003, Russia produced 5.8 million tons of sugar compared to 6.1 million metric tons (MMT) in 2002. However, production from raw sugar declined to 3.9 MMT in 2003 versus 4.5 MMT in 2002, while beet sugar output increased to 1.9 MMT in 2003 as compared to 1.6 MMT in 2002, and industry experts predict that sugar production from beets could reach 1.95-2.05 MMT in MY 2005. In part, these changes are being driven by government policy; raw sugar imports are decreasing due to new calculation methods for customs duties. Russia has had floating duties on raw sugar imports since January 1, 2004 that are dependent on trends on the New York Board of Trade.

## Production

Acreage dedicated to sugar beets in Russia is expanding as the entire industry strengthens. Yield results are positive, too. Preliminary data show that productivity through mid-September, at about 29 metric tons per hectare, is about 5.5 metric tons greater than in MY 2003. Sugar extraction rates also increased from 11.1 percent in 2003 to 11.3 percent in 2004. The total beet harvest in the current year has grown by seven percent over 2003 while the volume of processed beets increased by 34 percent in the same period.

**Table 1. Sugar Beet Supply and Demand**

### PSD Table

Country	Russian Federation					
Commodity	Sugar Beets				(1000 MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post	USDA	Post	USDA	Post
	[Old]	Estimate	Official	Estimate	Official	Estimate
Market Year Begin		[New]	[Old]	[New]	[Old]	[New]
		09/2002		09/2003		09/2004
Area Planted	900	900	1000	1000	1050	1000
Area Harvested	800	800	920	920	950	950
Production	15500	15500	17000	19300	19000	20000
TOTAL SUPPLY	15500	15500	17000	19300	19000	20000
Utilization for Sugar	15500	15500	17000	19300	19000	20000
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15500	15500	17000	19300	19000	20000

## Sugar Refining

Russia reduced its production of sugar from 2.39 million tons to 1.65 million tons, or 30 percent, in the January to June 2004 period as compared to the same period in 2003, according to data from the Russian Sugar Producers Union. This significant drop is due to a reduction in raw sugar imports for refining.

According to the Russian State Statistics Service produced 5.8 MMT of sugar in 2003, compared to 6.1 MMT in 2002. Production from raw sugar was 3.9 MMT in 2003 versus 4.5 MMT in 2002, and beet sugar output was 1.9 MMT in 2003 against 1.6 MMT.

Sugar industry experts predict that sugar production from sugar beets could reach 1.95-2.05 MMT in MY 2005.

**Table 2. Centrifugal Sugar Supply and Demand**

<b>PSD Table</b>						
<b>Country</b>	<b>Russian Federation</b>	<b>Commodity</b>	<b>Sugar, Centrifugal</b>			
				(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post	USDA	Post	USDA	Post
	[Old]	Estimate	Official	Estimate	Official	Estimate
		[New]	[Old]	[New]	[Old]	[New]
<b>Market Year Begin</b>		10/2002		10/2003		10/2004
Beginning Stocks	2130	2130	1050	1050	540	440
Beet Sugar Production	1580	1580	1930	1930	1900	2000
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1580	1580	1930	1930	1900	2000
Raw Imports	3700	3700	3800	3250	4300	3800
Refined Imp.(Raw Val)	300	300	350	420	350	400
TOTAL Imports	4000	4000	4150	3670	4650	4200
TOTAL SUPPLY	7710	7710	7130	6650	7090	6640
Raw Exports	10	10	10	10	10	10
Refined Exp.(Raw Val)	250	250	100	100	100	100
TOTAL EXPORTS	260	260	110	110	110	110
Human Dom. Consumption	6400	6400	6480	6100	6520	6100
Other Disappearance	0	0	0	0	0	0
Total Disappearance	6400	6400	6480	6100	6520	6100
Ending Stocks	1050	1050	540	440	460	430
TOTAL DISTRIBUTION	7710	7710	7130	6650	7090	6640

### Consumption

Sugar consumption patterns are changing by consumer group. For example, home users of sugar are demanding less as they reduce output of homemade products that use sugar as an ingredient. In contrast, use of sugar for industrial production is growing significantly.

### Trade

Russian sugar refineries imported 1.9 MMT of raw sugar during January-July 2004, a significant reduction from 3.1 MMT during the same period of 2003. Russia expects to import up to three MMT of raw sugar in 2004, which is one MMT less than in the previous year.

## Prices

The farm-level price for sugar beets in the 2004 harvest season is about 1,000 rubles per metric ton. The price the farmer will actually receive will depend on sugar content.

The price for sugar in July 2004 was the highest it has been in the past nine years, and may continue to rise, due to the reduction in raw sugar imports. In fact, industry experts predict that sugar production in Russia will fall by almost one million tons during the first seven months of 2004 as compared to the same period in 2003. This higher price estimate would provide additional incentives for expanded sugar beet production in Russia next year.

## Stocks

Sugar stocks remain nearly constant because the custom duty regime that came into force in early 2004 made import tariff rates more stable and predictable, reducing the need to keep large sugar supplies in warehouses for long periods and eliminating the incentive to import large quantities (and drive up stocks) when tariffs were low.

## Policy

Officials from the Ministry of Agriculture have stated that in accordance with the Program of Development of the Sugar Industry in Russia, the sugar import regime will not change in 2005 as it had already been fixed in WTO-related accession documents. The Ministry of Agriculture will request that the Ministry of Economic Development and Trade facilitate submission to the GOR of a Draft Resolution on application of current import duty on sugar-containing products on permanent bases; the draft Resolution on introduction of import quotas on white sugar is also expected to be submitted.

Russia has had floating duties on raw sugar imports since January 1, 2004 that are based on price trends as reflected on the Coffee, Sugar, and Cocoa Exchange at the New York Board of Trade. The intergovernmental commission on protective measures in foreign trade and customs tariff policies that met in September decided partially to change the regime by temporarily expanding the time frame for determining the size of raw sugar import duties from one month to three months.

This will result in more reliable protection from the volatility of the world market for the Russian sugar market. As an example, low January contract prices brought raw sugar import duties to \$250 per ton, a nearly prohibitive rate. This new way of determining duties allows large companies to make better purchasing decisions and to provide sugar plants with raw materials a year in advance.

The working group also reviewed limiting custom entry points for declaring white sugar and products containing sugar that are imported to Russia. The State Customs Committee was instructed to finish a draft of the corresponding resolution and list the declaration points.

## Informal Trade

Some sugar market experts estimate that the gray market represents as much as 20 percent of total imports.

## Import Duty Update

Duties on raw sugar imports into Russia will be \$180 per ton in October 2004, according to a September 7 press release from the Ministry of Economic Development and Trade. Duties

were \$194 per ton in August, and \$206 per ton in May-July. The duties were based on mid-month prices on current October raw sugar contracts on the New York Board of Trade in August 2004. The mid-month price on raw sugar was \$173.70 per ton on the New York Board of Trade, against \$180.02 per ton in July, according to monitoring conducted by the Ministry of Economy development and Trade.